

December 1, 2001

The Honorable John Hoeven
Governor of North Dakota
State Capitol
Bismarck, ND 58505

Mr. Alvin A. Jaeger
Secretary of State
State Capitol
Bismarck, ND 58505

Dear Governor Hoeven and Mr. Jaeger:

In accordance with Section 54-06-04 of the North Dakota Century Code, I am submitting for your review the 1999-2001 Biennial Report of the Board of University and School Lands. The report covers July 1, 1999 through June 30, 2001.

My submission of this report is made as the Acting Commissioner at the end of the biennium. Until January 31, 2001, the activity covered by this biennial report was under the administration of Robert J. Olheiser, Commissioner of University and School Lands.

As many of the past reports have done, acknowledgement of the dedication of the employees of the agency must be made. The people of the Land Department know that their job is to work for the beneficiaries of the trusts we manage. They know that funds not necessary for the operation of the agency will be used exclusively for the benefit of North Dakota, mainly for the education of the children of our State. They are always looking for better and less expensive ways to do what they do. It is a pleasure to work among these individuals.

Sincerely,

Rick D. Larson
Acting Land Commissioner

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POLICY OF NON-DISCRIMINATION ON THE BASIS OF DISABILITY

The State Land Department does not discriminate on the basis of disability in the admission or access to, or treatment or employment in, its programs or activities. A coordinator has been designated to ensure compliance with the non-discrimination requirements contained in §35.107 of the Dept. of Justice regulations. Please call (701) 328-2800 for information concerning the provisions of the Americans with Disabilities Act, and the rights provided thereunder as they relate to the agency and access to its records.

Historical Overview

On February 22, 1889, Congress passed "An act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments . . ." This Act is commonly known as the Enabling Act. Section 10 of this act granted sections 16 and 36 in every township to the new states "for the support of common schools." In cases where portions of sections 16 and 36 had been sold prior to statehood, indemnity or "in-lieu" selections were allowed. In North Dakota, this grant of land totaled over 2.5 million acres.

Under sections 12, 14, 16 and 17 of the Enabling Act (and other acts referred to therein), Congress provided further land grants to the state of North Dakota for the support of colleges, universities, the state capitol and other public institutions. These additional grants totaled approximately 668,000 acres, bringing the grand total of Enabling Act land grants to nearly 3.2 million acres.

CONSTITUTIONAL AUTHORITY

North Dakota's Constitution (Article X), adopted on October 1, 1889, entrusted the management of these lands (both acquired land and grant land) to the "board of university and school lands." The board was initially made up of the governor as chairperson, the secretary of state as vice-chair, the attorney general, superintendent of public instruction, and the state auditor. On June 10, 1986, a constitutional amendment replaced the state auditor with the state treasurer.

The Land Board currently consists of the following members:

Governor John Hoeven, Chairman
Attorney General Wayne Stenehjem
Secretary of State Alvin A. Jaeger, Vice Chairman
State Treasurer Kathi Gilmore
Supt. of Public Instruction Dr. Wayne Sanstead

COMMISSIONER OF UNIVERSITY & SCHOOL LANDS

Under N.D.C.C. §15-02-01, the Board of University and School Lands is required to appoint a commissioner to act on their behalf. Specific responsibilities of the Board and the Commissioner are set out in N.D.C.C. ch. 15-01 through ch. 15-08.1.

Generally, the Commissioner of University and School Lands is responsible for the following:

- ◆ Acting as the general agent for the Board.
- ◆ Supervising all aspects and activities of the State Land Department.
- ◆ Having general charge and supervision of all grant lands and associated records, maps, books and papers.
- ◆ Enforcing the Unclaimed Property Act (N.D.C.C. §15-02-05.2 and ch. 47-30.1).

The office of the Commissioner of University and School Lands has been commonly called the State Land Department.

In 1989, the Energy Development Impact Office became a division of the Office of the Commissioner, however, the EDIO Director is appointed directly by the Board of University and School Lands (N.D.C.C. §57-62-04).

LAND SALES & ACQUISITIONS

Since statehood in 1889, much of the grant land has been sold. Beginning in 1939, whenever the state sold grant land, it reserved five percent of the minerals. In 1941, the reservation was increased to 50 percent; and, since July 28, 1960, the North Dakota Constitution has mandated a 100 percent mineral reservation. Today, the Land Department manages in excess of 660,000 of the original, grant land surface acres, and over 1.8 million of the original mineral acres. Approximately 51,000 acres have since been acquired through foreclosure or other means, bringing the total surface acreage to approximately 714,000 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and for the minerals under sovereign land (navigable rivers/lakes) to the Department. This brings the total mineral acres managed to over 2.5 million acres.

Agency Overview

The Land Grant to the State from the federal government and the State Constitution provides that the Board of University and Schools Land shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed according to NDCC 15.03-05.2, again, for the exclusive benefit of those trust beneficiaries. (See "Schedule of Net Asset Balances" and "Schedule of Distributions by Trust", page 16.)

This income is generated through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, and over \$625 million in permanent trust fund financial assets. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury notes and bonds, and corporate bonds and stocks. The income from these investments, together with surface and mineral rentals, is distributable to schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium. (See "Investments", page 6, and "Surface Management", page 12)

The following is a list of beneficiaries of the various trust funds administered by the Land Department pursuant to Article IX of the North Dakota Constitution:

- | | |
|----------------------------------|--------------------------------|
| 1) Common Schools | 8) Mayville State University |
| 2) North Dakota State University | 9) Industrial School |
| 3) School for the Blind | 10) State College of Science |
| 4) School of the Deaf | 11) Schools of Mines |
| 5) State Hospital | 12) Veterans Home |
| 6) Ellendale State College* | 13) University of North Dakota |
| 7) Valley City State University | 14) Capitol Building |

** The beneficiaries of this trust are now Dickinson State University, Minot State University, MSU-Bottineau, Veterans Home, School of the Blind, State Hospital, and the State College of Science.*

Common Schools Trust Fund

The major trust administered by the Land Department is the Common Schools Trust Fund, which distributes its income to the various school districts through the Department of Public Instruction. The distribution amounts to approximately \$300 per student in kindergarten through grade 12.

Besides the sources of revenue listed above, the Common Schools Trust Fund receives 10% of the oil and gas extraction tax (ND Constitution Article X, Section 24) amounting to approximately \$1 million per year, which is invested according to the policy of the Board of University and School Lands in the permanent funds of that trust fund. (See "Schedule of Permanent Fund Receipts by Trust", page 16.)

The Common Schools Trust Fund also receives 45% of the proceeds from the tobacco class-action lawsuit settlement (NDCC 54-27-25). These funds become part of the permanent funds and are invested according to the policy of the Board of University and School Lands. (See "Schedule of Permanent Fund Receipts by Trust", page 16.)

Lands and Minerals Trust Fund

The Land Department is the trustee for the Lands and Minerals Trust Fund created by NDCC 15-08.1 and 61-33-07. This trust fund consists of approximately 704,750 mineral acres formerly owned by the Bank of North Dakota, and the minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. All monies collected in this fund are subject to legislative appropriation each biennium. This fund serves as a collection vehicle for repayment of the developmentally disabled facilities loans funded by the Common Schools Trust. The Bank of North Dakota administers the loans. The principal and interest payable to the Common Schools Trust is appropriated from the Land and Minerals Trust Fund. (See "Schedule of Other Funds", page 16.)

Coal Development Trust Fund

The Coal Development Trust Fund was established by NDCC 57-62-02 and pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30% of the coal severance tax. The fund must be held in trust and

administered by the Board of University and School Lands for loans to coal impacted counties, cities, and school districts as provided by section NDCC 57-62-03, and for loans to school districts pursuant to NDCC 15.1-36. The unloaned balance is invested according to the policy of the Board of University and School Lands. (See "Investments", page 12 and "Schedule of Other Funds", page 16.)

Unclaimed Property

The Land Department administers the Uniform Unclaimed Property Act (NDCC 47-30.1). In this capacity the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and attempts to find the property's owner. Property acquired via this Act is held in trust in perpetuity on behalf of the owner, therefore, owners have one place they can search for their property. The income from property for which the owner cannot be found is distributed to ND public grades K-12. (See "Unclaimed Property Division", page 10.)

Energy Development Impact Office

The Energy Development Impact Office (EDIO) (NDCC 57-62) is also a part of the Land Department. The EDIO allocates funds appropriated by the state legislature to assist local political subdivisions in dealing with problems arising from oil development. In the allocation of these funds, the Director of the office accepts applications for funding, travels to visit with subdivisions requesting the funding, allocates the funds, and administers the payout of the funds to the grantees. (See "Energy Development Impact Office", page 11.)

Land Assets

An estimate of the value of our land is now included in the total amount of our assets. The prior biennium has been restated to reflect the land values for comparative purposes. The amount reflected in the asset balances for the biennium ending June 30, 1999 is \$98,982,000. The ending balance for June 30, 2001 includes \$102,735,000. (See "Investments", page 12).

Mission Statement

The mission of the State Land Department, under the direction of the Board of University and School Lands, is to serve as a trustee for the benefit of the common schools (public grades K-12), various institutions of higher education, and certain other state institutions.

Land Department Statement of Goals

The primary goal of the Department is to maximize distributable income and trust growth within the parameters allowed by state law, board policy, the prudent investor rule and sound land and mineral management practices. To achieve this primary goal, the following subgoals have been established:

1. To obtain a "fair market" return from the surface lands while improving their condition and value.
2. To develop and pursue a strong, effective minerals management program which maximizes revenue to the trusts.
3. To develop and pursue an aggressive, fair minerals audit program to ensure that the trusts receive all royalties.
4. To continue to encourage and improve compliance with the Uniform Unclaimed Property Act.

5. To preserve the purchasing power of the trusts by maintaining and increasing, relative to inflation, the income distributable to trust beneficiaries.
6. To manage the permanent financial assets of the trusts within the guidelines of the Prudent Investor Rule.

Energy Development Impact Office Statement of Goals

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

Funding Sources and Expenses

- ♦ Funding for the State Land Department is received through the State Lands Maintenance fund. This fund consists of fees charged for services, plus a portion of interest and income earned by the various trusts (N.D.C.C. § 15-03-01.1).
- ♦ Funds for oil impact grants are requested from the Oil Impact Grant Fund. The administration expenses of the Energy Development Impact Office are paid out of the Oil Impact Grant Fund.

Land Department Statement of Appropriations and Expenditures

LAND DEPARTMENT	1999-2001 Appropriations	1999-2001 Expenditures	Unexpended Appropriations
Salaries and wages	\$1,725,842	\$1,480,335	\$245,560
Operating expenses	677,741	636,505	41,236
Equipment	12,317	49,327	(37,010)
Total Land Department	\$2,415,900	\$2,166,167	\$249,786

ENERGY DEVELOPMENT IMPACT OFFICE	1999-2001 Appropriations	1999-2001 Expenditures & Approved Grants	Unexpended Appropriations
Salaries and wages	\$86,469	\$72,480	13,989
Operating expenses	24,748	20,568	4,179
Equipment	683	1,745	(1,062)
Grants	4,888,100	*4,900,000	(11,900)
Total EDIO	\$5,000,000	\$4,994,793	\$5,205

*The North Dakota legislature appropriates the statutory maximum of \$5,000,000 for EDIO grants and operating expenses, however, the revenue generated for this fund is usually less than the appropriated maximum. Each biennium, all available funds are granted by the EDIO Director. This biennium \$4.9 million was granted.

Other Land Department Information

PUBLICATIONS

In addition to this report, the Department publishes:

- ❖ A semi-annual newsletter which is distributed to surface lessees and other interested parties.
- ❖ Lists of tracts to be leased at quarterly oil and gas lease sales, together with a summary of the results of these sales.
- ❖ Lists of individuals entitled to unclaimed property (N.D.C.C. § 47-30.1-19.1).
- ❖ Summaries of grant awards made by the Energy Development Impact Office.
- ❖ An informational brochure relating to owners of unclaimed property.
- ❖ An informational brochure relating to holders of unclaimed property.
- ❖ An informational brochure relating to the operations of the State Land Department.

Notice of the leasing and sale of surface and mineral tracts is given by publication in the official county newspaper where the land is located. Newly reported unclaimed property owners are published in the official county newspaper of the owner's last known address.

MEETINGS

The Board of University and School Lands meets monthly, unless there is insufficient business to require a Board meeting. The regular meeting day is the last Thursday of the month, however Board member's schedules may require changes in this schedule.

Minutes of the Board and other information regarding the activities of the State Land Department can be obtained from:

*State Land Department
1707 N 9th Street
P.O. Box 5523
Bismarck, ND 58506-5523*

General Information 701-328-2800
Fax 701-328-3650

WORLD WIDE WEB ADDRESS

The Land Department maintains a web site at:
www.land.state.nd.us

ND STATE LAND DEPARTMENT

Personnel Matrix (as of 6-30-01)

	Investments Division	Unclaimed Property Division	Minerals Division	Surface Division	Energy Development Impact Office
Directors	*Jeff Engleson	*Linda Fisher	**Rick Larson	*Mike Brand	**Rick Larson
Accounting	*Keith Bayley *Jeff Engleson	*Keith Bayley *Jeff Engleson Bonnie Pazdernik	*Keith Bayley *Jeff Engleson Bonnie Pazdernik	*Keith Bayley *Jeff Engleson Bonnie Pazdernik	*Keith Bayley *Jeff Engleson Bonnie Pazdernik
Administration	**Rick Larson *Linda Fisher	**Rick Larson *Linda Fisher	**Rick Larson *Linda Fisher	**Rick Larson *Linda Fisher	**Rick Larson *Linda Fisher
Administrative Support	*Linda Fisher Bonnie Pazdernik	*Linda Fisher Deb Jacobs Lynn McCulley Bonnie Pazdernik Judy Schell Loa Tober	*Linda Fisher Deb Jacobs Lynn McCulley Bonnie Pazdernik Judy Schell	*Linda Fisher Deb Jacobs Lynn McCulley Bonnie Pazdernik Judy Schell Loa Tober	*Linda Fisher Deb Jacobs Bonnie Pazdernik
Auditing			*Keith Bayley Deb Froemke		
Information Tech Services	*Desi Smith Jayden Pascua	*Desi Smith Jayden Pascua	*Desi Smith Jayden Pascua	*Desi Smith *Mike Brand Jayden Pascua	*Desi Smith Jayden Pascua
Leasing Services			*Linda Fisher	*Linda Fisher Jerry Saude	
Resource Management				Mike Haupt Mike Humann Jerry Saude	

*Division directors, supervisory & advisory personnel who report directly to the Commissioner

**Acting Commissioner and Director of the EDIO

Energy Development Impact Office

Rick D. Larson, Director

The Energy Development Impact Office (EDIO) was organized in 1975 by Legislative authorization of the Coal Development Impact Program under N.D.C.C. ch. 57-62. On July 1, 1989 the EDIO was combined with the Land Department and is currently under the direction of the Board of University and School Lands. The coal program began in 1975 and expired in 1989. The Oil Impact Grant Program began in 1981 and is still in existence.

During the 1999-2001 biennium, the Oil Impact Grant Program helped reduce the financial hardships of local political subdivisions which resulted from activities of the oil industry. The program is funded by 6.67% of the Oil & Gas Gross Production Tax. For the 1999-2001 biennium, that allocation amounted to approximately \$5 million. The allocation cannot exceed \$5 million for a biennium.

During the 1999-2001 biennium, the office conducted grant rounds in the spring of 2000 and the spring of 2001.

To receive funding, applicants must show:

1. That oil activity in the area has created a financial hardship which cannot be handled without help from the Oil Impact Grant Program; and
2. That the project will alleviate the hardship that resulted from oil activity; and
3. That the applicant's financial resources to handle the project are insufficient (this implies that the applicant has made a diligent local taxing effort to accomplish its goal).

These funds are awarded by the EDIO Director following visits with the local political subdivisions requesting the funding. Following these visits, the Director considers information received during these meetings, the information included in the application, and any other compiled data relating to oil production, oil taxation, and property taxation. Information is also obtained through the state's mainframe computer from the Oil & Gas Division of the Industrial Commission showing oil wells, oil production, and salt water production, which helps establish the degree of oil-related traffic in each township. Also, the EDIO collects oil tax and property tax data from various sources, including the State Treasurer's Office, the State Tax Commissioner's Office, the State Department of Public Instruction, and the ND League of Cities.

1999-2001 Biennium Oil Impact Grant Applications and Awards			
Summary by County			
County	\$ Requested	\$ Awarded	%
Billings	\$1,403,993	\$30,000	.6
Bottineau	\$890,750	\$398,850	8.1
Bowman	\$5,758,939	\$999,700	20.4
Burke	\$743,582	\$366,000	7.5
Divide	\$586,088	\$306,000	6.2
Dunn	\$1,065,880	\$192,000	3.9
G. Valley	\$813,853	\$304,000	6.2
McKenzie	\$646,510	\$112,000	2.3
McLean	\$23,500	\$15,000	.3
Mercer	\$273,840	\$18,000	.4
Mountrail	\$756,358	\$369,500	7.5
Renville	\$1,117,175	\$365,500	7.5
Slope	\$753,570	\$171,000	3.5
Stark	\$2,903,893	\$388,500	7.9
Ward	\$107,100	\$45,600	.9
Williams	\$4,903,620	\$818,300	16.7
TOTAL	<u>\$22,748,652</u>	<u>\$4,900,000</u>	<u>100</u>

1999-2001 Biennium Oil Impact Grant Applications and Awards			
Summary by Class of Subdivision			
Class	\$ Requested	\$ Awarded	%
County	\$8,411,293	\$2,064,000	42.1
School	\$1,316,957	\$248,000	5.1
City	\$7,813,080	\$890,900	18.2
Park District	\$120,346	\$3,000	.1
Airport Auth.	\$733,000	\$46,000	.9
Township	\$2,576,930	\$1,216,600	24.8
Fire Ambul.	<u>\$1,777,045</u>	<u>\$431,500</u>	<u>8.8</u>
TOTAL	<u>\$22,748,651</u>	<u>\$4,900,000</u>	<u>100</u>

The tables on this page summarize the amounts allocated by county and by class of subdivision for the oil impact grant program. Counties and townships accounted for 66.9% of the total amount awarded, most of which was for road projects. Cities accounted for 18.2% of the total. A list of individual grants made during the 1999-2001 biennium is available upon request. Altogether, the EDIO allocated grants totaling \$4,900,000 during the 1999-2001 biennium.

A total of 471 grants were issued in the two grant rounds to counties, cities, townships, schools, fire and ambulance districts and other local units of government in an area west of a line from Bottineau to Bowman. The EDIO is a program that successfully channels financial help to where it is most needed, at minimum operational expense to the State of North Dakota.

Surface Management

Michael D. Brand, Director

This division leases and manages surface acres held in trust for various schools and institutions. The major source of income on these lands comes from grazing and agricultural leases, with additional revenue being generated from rights-of-way, and gravel and scoria mining.

The objective of surface management is to obtain a "fair market" return from the lands while maintaining or improving its condition and value.

LEASING

A total of 2,342 grazing and agricultural leases were issued this biennium. Public auctions were held each spring and fall with the leases going to the highest bidder. Leasing success has been high with a success rate over 99%. Flooding in the northeastern part of the state continued to depress leasing income in that area.

Total rental collected increased by 8% from last biennium. This increase is due to competitive bidding at auction, and changes to the minimum acceptable bids as calculated with the Fair Market Value Method (FMVM). The FMVM tracks changes to the agricultural rental market in various leasing regions, and uses this information to calculate the minimum acceptable bid at public auction for each tract of school trust land.

NOXIOUS WEED CONTROL

Flea beetles continue to show promise for controlling leafy spurge. The number of flea beetle rearing sites have continued to increase each year of the biennium. There are now 360 sites established on school trust lands; an 86% increase this biennium. Most importantly, these sites now serve as a source of flea beetles to control leafy spurge on other school trust lands. The flea beetle biocontrol program has now shifted from the initial stage of insect rearing to a program of reducing large areas of leafy spurge. There has been a significant reduction in the density and extent of leafy spurge on several tracts of land because of biocontrol. This will translate into reduced chemical control costs and increased rental income in the next biennium on those tracts and others as more insects are redistributed.

Spotted knapweed remains a major concern in North Dakota. No new infestations were found on school trust lands and known infestations were monitored for effective control.

LAND MANAGEMENT

Some of the school trust lands that are leased need improvement. Cooperative land improvement projects during the biennium included:

- Grazing management plans for the improvement of

SURFACE ACRES BY COUNTY

As of June 30, 2001

County	Acres	County	Acres	County	Acres
Adams	17,115.78	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,638.72	Ransom	1,120.00
Benson	12,725.28	Griggs	1,741.24	Renville	1,910.12
Billings	31,082.07	Hettinger	9,879.60	Richland	513.68
Bottineau	3,597.94	Kidder	28,643.79	Rolette	6,822.88
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,127.79
Burke	16,119.43	Logan	9,404.92	Sheridan	26,225.02
Burleigh	27,878.66	McHenry	23,344.42	Sioux	23,411.56
Cass	45.47	McIntosh	6,357.50	Slope	23,605.98
Cavalier	596.47	McKenzie	64,714.78	Stark	6,142.64
Dickey	3,980.69	McLean	21,036.54	Stutsman	15,664.01
Divide	21,127.12	Mercer	14,969.40	Towner	8,076.00
Dunn	26,122.70	Morton	18,113.89	Walsh	201.02
Eddy	10,274.62	Mountrail	32,445.36	Ward	11,198.98
Emmons	14,476.80	Nelson	2,853.66	Wells	5,248.63
Foster	3,111.51	Oliver	7,588.41	Williams	38,399.32
Grand Forks	2,073.77	Pierce	14,470.24	Total	<u>713,787.96</u>

range condition and productivity.

- Reseeding of marginal cropland with native grasses.
- Development of dams and dugouts for livestock water and wildlife enhancement.
- Cooperative clean-up of 192 trash sites and sealing 13 abandoned wells.
- Chiseling to control clubmoss and to improve range condition and productivity.

Many of these projects are initiated and completed each biennium while some, such as grazing management plans, require 10-15 years to achieve results.

In addition to the land improvement projects, the surface management division is responsible for issuing easements and monitoring reclamation on rights-of-way, oil wells, coal mines, and gravel and scoria mines on school trust lands.

**Surface Acres by Trust Fund
As of June 30, 2001**

Trust Fund	Acres
Common Schools	635,694.79
School for the Blind	3,477.87
State Capitol	9,981.17
School for the Deaf	4,828.85
Ellendale State College ¹	4,984.17
State Hospital	2,203.91
Industrial School	3,899.43
School of Mines ¹	3,392.03
N.D.S.U.	15,117.68
Veterans' Home	2,913.69
U.N.D.	9,616.98
Valley City State University	640.00
ND State College of Science	3,731.31
Mayville State University	640.00
Valley City/Mayville ²	6,818.08
Farm Loan Pool ³	<u>5,848.00</u>
Total	<u>713,787.96</u>

1. Income from the assets held by the Ellendale Trust Fund are allocated equally among the following institutions: Dickinson State University, Minot State University, NDSU-Bottineau, School for the Blind, Veterans' Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.
2. Receipts from acreage held jointly by Valley City and Mayville State Universities are allocated 62.5% to Valley City and 37.5% to Mayville.
3. Receipts from this acreage is distributed by formula to all of the above funds except the State Capitol fund.

SPECIAL PROJECTS

A land trade was completed in Mercer County in 2000 to facilitate better management of Harmony Lake. The lake was created during coal mine reclamation for recreation and wildlife management purposes. This involved a three way trade between The Coteau Properties Company, the North Dakota Game and Fish Department and the Board of University and School Lands under North Dakota Century Code chapter 20.1-11-12. In exchange for 78.76 acres of grassland, the common schools trust fund received 78.74 acres of cropland. The grassland was more valuable for wildlife management purposes in conjunction with the management of Harmony Lake, while the common schools trust fund received a higher leasing income from the cropland.

The common schools trust fund also received a donation of 169.31 acres from Russell and Helen Hedlund, Edina, MN in 1999. This land was valued at \$40,000 and will provide a long-term benefit to the trusts.

FORECLOSED PROPERTY

Most of the land acquisitions during the last biennium were a result of foreclosure and deed backs from farm loan pool mortgages in default. Likewise, the great majority of land sales were of foreclosed property. These sales allowed the trusts to recover their investment and returned these lands to the private market.

**Land Sales and Acquisitions
1999 - 2001**

Acquisitions:	Acres
Farm Loan Pool	707.50
Donation to Common Schools	169.31
Railroad Abandonment	4.00
NDCC Chapter 20.1-11-12	78.74
Adjustments to acres in the database	<u>12.36</u>
Total Acquisitions	<u>967.91</u>

Sales:	
Farm Loan Pool	1,227.50
NDCC Chapter 15-09	13.04
NDCC Chapter 20.1-11-12	<u>78.76</u>
Total Sales	<u>1,319.30</u>

Minerals Management

Rick D. Larson, Director

The Minerals Management Division administers mineral interests held in trust for the benefit of various schools and institutions of North Dakota. The Division also administers mineral interests formerly owned by the Bank of North Dakota, plus the minerals under navigable rivers and lakes.

OIL AND GAS ACTIVITY

The Cedar Hills and West Medicine Pole Hills fields in Bowman County have been unitized to try to recover more oil by injecting water or air into the Red River "B" formation. The Red River "B" formation unitization had been a point of contention between the two principal oil companies, Burlington Resources Oil and Gas Company and Continental Resources, Inc. The North Dakota Industrial Commission has worked out a means for both companies to divide the Cedar Hills field into a North Unit and South Unit so each company can conduct their own unit operations.

The two technologies that have emerged as the main activity in North Dakota are unitization of existing production, and horizontal drilling in existing well and fields. Both activities are exploiting known production and trying to incrementally produce more oil from those reserves.

During this biennium oil prices rebounded to a level that has not been seen for ten years. An increase in leasing activity which normally would have followed the price increase, did not materialize. Companies have not recovered from the extremely low prices during last biennium. The 1999-2001 lease sales generated \$1,196,839 in bonuses for the State Land Department, which amounts to an average of \$10.50 per acre.

COAL PRODUCTION

Total coal royalty revenue for this biennium was \$4,190,153. Coteau Properties Company, BNI Coal, Ltd., and Dakota Westmoreland Corporation (formerly Knife River Mining Company) were actively mining tracts where the state owned a mineral interest. The only new leasing activity was a Leonardite lease issued to American Colloid Company in Bowman County. Leonardite is a form of lignite that is mixed with drilling mud for oil and gas wells, and is also used as a soil additive.

Oil and Gas Leasing Activity

	<u>1997-1999</u>	<u>1999-2001</u>
Gross Mineral Acres Owned*	2,552,108	2,545,942
Acres Under Lease	477,159	364,633
# of Oil/Gas Lease Sales	8	8
Net Mineral Acres Leased	103,777	115,085
Ave. Bonus/Net Mineral Acre	\$21.27	\$10.50

**Approximate acreage only. Total acreage will vary due to estimates of the acreage owned by the state under navigable rivers and lakes.*

Mineral Division Receipts

	<u>1997-1999</u>	<u>1999-2001</u>
Oil and gas royalty	\$10,676,657	\$17,964,883
Oil and gas bonus	\$2,207,646	\$1,208,119
Coal royalty	\$2,526,429	\$4,189,023
Oil and gas rental	\$878,974	\$459,501
Testholes and Damages	\$248,524	\$180,141
Royalty/collection efforts	\$153,540	\$195,882
TOTAL	<u>\$16,691,770</u>	<u>\$24,187,819</u>

OIL AND GAS LEASE SALE RESULTS
North Dakota State Minerals

COUNTY		Aug-99	Nov-99	No sale Feb-00	May-00	Aug-00	Nov-00	Feb-01	May-01	TOTAL
ADAMS	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$5,778.76	\$0.00	\$0.00	\$0.00	\$5,778.76
	MIN. ACRES	0.00	0.00	0.00	0.00	4,258.76	0.00	0.00	0.00	4,258.76
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$1.36	\$0.00	\$0.00	\$0.00	\$1.36
BILLINGS	TOTAL \$	\$1,060.00	\$0.00	\$0.00	\$313,480.00	\$17,063.94	\$33,097.78	\$22,620.88	\$12,782.92	\$400,105.52
	MIN. ACRES	740.00	0.00	0.00	1,720.00	3,543.89	2,818.18	1,890.64	896.92	11,609.63
	\$/MIN ACRE	\$1.43	\$0.00	\$0.00	\$182.26	\$4.82	\$11.74	\$11.96	\$14.25	\$34.46
BOTTINEAU	TOTAL \$	\$860.00	\$0.00	\$0.00	\$400.00	\$0.00	\$2,152.00	\$992.00	\$16.00	\$4,420.00
	MIN. ACRES	92.00	0.00	0.00	80.00	0.00	176.00	416.00	16.00	780.00
	\$/MIN ACRE	\$9.35	\$0.00	\$0.00	\$5.00	\$0.00	\$12.23	\$2.38	\$1.00	\$5.67
BOWMAN	TOTAL \$	\$1,300.00	\$0.00	\$0.00	\$320.00	\$30,181.20	\$5,293.20	\$12.00	\$3,260.00	\$40,366.40
	MIN. ACRES	490.00	0.00	0.00	80.00	879.06	160.40	4.00	420.00	2,033.46
	\$/MIN ACRE	\$2.65	\$0.00	\$0.00	\$4.00	\$34.33	\$33.00	\$3.00	\$7.76	\$19.85
BURKE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$18,856.00	\$160.00	\$0.00	\$18,816.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	648.00	80.00	0.00	728.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$28.79	\$2.00	\$0.00	\$25.85
DIVIDE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$740.00	\$959.00	\$160.00	\$959.08	\$3,200.00	\$6,018.08
	MIN. ACRES	0.00	0.00	0.00	740.00	959.00	160.00	959.08	560.00	3,378.08
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$1.00	\$1.00	\$1.00	\$1.00	\$5.71	\$1.78
DUNN	TOTAL \$	\$0.00	\$23,592.46	\$0.00	\$16,481.63	\$11,404.49	\$3,682.00	\$41,295.11	\$8,344.08	\$104,799.77
	MIN. ACRES	0.00	1,928.72	0.00	3,441.63	3,520.84	478.00	6,567.05	412.06	16,348.30
	\$/MIN ACRE	\$0.00	\$12.23	\$0.00	\$4.79	\$3.24	\$7.70	\$6.29	\$20.25	\$6.41
EMMONS	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8,223.98	\$0.00	\$0.00	\$8,223.98
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	8,141.98	0.00	0.00	8,141.98
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.01	\$0.00	\$0.00	\$1.01
G. VALLEY	TOTAL \$	\$0.00	\$160.00	\$0.00	\$117,120.00	\$39,179.40	\$86,842.80	\$7,120.95	\$0.00	\$250,423.15
	MIN. ACRES	0.00	160.00	0.00	1,920.00	1,273.55	3,684.40	560.95	0.00	7,598.90
	\$/MIN ACRE	\$0.00	\$1.00	\$0.00	\$61.00	\$30.76	\$23.57	\$12.69	\$0.00	\$32.96
HETTINGER	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$13,609.86	\$12,444.78	\$395.46	\$0.00	\$26,450.10
	MIN. ACRES	0.00	0.00	0.00	0.00	4,969.86	11,098.32	395.46	0.00	16,463.64
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$2.74	\$1.12	\$1.00	\$0.00	\$1.61
MCKENZIE	TOTAL \$	\$1,280.00	\$10,891.89	\$0.00	\$6,660.00	\$53,627.35	\$20,321.38	\$1,980.00	\$36,228.00	\$130,988.62
	MIN. ACRES	960.00	1,162.45	0.00	2,260.00	1,208.11	1,501.38	700.00	2,618.00	10,409.94
	\$/MIN ACRE	\$1.33	\$9.37	\$0.00	\$2.95	\$44.39	\$13.54	\$2.83	\$13.84	\$12.58
MCLEAN	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$16,320.00	\$0.00	\$168.00	\$16,488.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	160.00	0.00	168.00	328.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$102.00	\$0.00	\$1.00	\$50.27
MOUNTRAIL	TOTAL \$	\$0.00	\$2,440.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,096.57	\$6,923.31	\$11,459.88
	MIN. ACRES	0.00	360.00	0.00	0.00	0.00	0.00	1,052.57	1,483.31	2,895.88
	\$/MIN ACRE	\$0.00	\$6.78	\$0.00	\$0.00	\$0.00	\$0.00	\$1.99	\$4.67	\$3.96
RENVILLE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$3,040.00	\$1,280.00	\$0.00	\$1,280.00	\$16.00	\$5,616.00
	MIN. ACRES	0.00	0.00	0.00	240.00	160.00	0.00	320.00	8.00	728.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$12.67	\$8.00	\$0.00	\$4.00	\$2.00	\$7.71
ROLETTE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$1,757.80	\$40.00	\$0.00	\$0.00	\$320.00	\$2,117.80
	MIN. ACRES	0.00	0.00	0.00	199.95	40.00	0.00	0.00	320.00	559.95
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$8.79	\$1.00	\$0.00	\$0.00	\$1.00	\$3.78
SLOPE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$30,370.62	\$30,370.62
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,352.12	4,352.12
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6.98	\$6.98
STARK	TOTAL \$	\$3,635.82	\$1,680.00	\$0.00	\$14,845.16	\$24,157.79	\$31,234.99	\$50,608.39	\$2,638.63	\$128,800.78
	MIN. ACRES	1,639.62	440.00	0.00	2,073.36	1,859.90	13,755.48	1,931.87	1,318.63	23,018.86
	\$/MIN ACRE	\$2.22	\$3.82	\$0.00	\$7.16	\$12.99	\$22.27	\$26.20	\$2.00	\$5.60
WARD	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$328.00	\$328.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	328.00	328.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$1.00
WILLIAMS	TOTAL \$	\$0.00	\$0.00	\$0.00	\$12,035.36	\$160.00	\$0.00	\$4,352.50	\$0.00	\$16,547.86
	MIN. ACRES	0.00	0.00	0.00	886.12	160.00	0.00	77.50	0.00	1,123.62
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$13.58	\$1.00	\$0.00	\$56.16	\$0.00	\$14.73
TOTAL S	TOTAL \$	\$8,135.82	\$38,764.35	\$0.00	\$486,879.95	\$197,441.79	\$238,428.91	\$133,872.94	\$104,595.56	\$1,208,119.32

Unclaimed Property

Linda Fisher, Administrator

The Unclaimed Property Division administers and enforces the Uniform Unclaimed Property Act (NDCC 47-30.1). The purpose of the Act is: to collect and safeguard property remitted by holders; to make efforts to locate owners, and to support the Common Schools Trust Fund with interest earned on funds that remain unclaimed. The Act has been in effect since July 1, 1975. Over the past 25 years there have been significant changes in the law, and in the methods used to reach property owners - especially introduction of the internet - which have resulted in substantial increases in both receipts of property, and payments to owners. Increases in both areas are reflected in the chart at the bottom of the page.

HOLDER COMPLIANCE AND AWARENESS EFFORTS

During the 1999-2001 biennium, the compliance emphasis was shifted somewhat away from audit and more toward holder education and voluntary compliance. In addition to conducting 16 formal audits this biennium, in 2000, a cooperative effort with the North Dakota Secretary of State's office allowed us to mail information regarding the unclaimed property law and reporting requirements to the majority of North Dakota businesses. This effort was due in part to a 1999 statement of legislative intent requesting that more emphasis be put on educating holders and encouraging voluntary compliance, as opposed to conducting formal audits and assessing penalties for non-compliance. In addition, North Dakota continued to be a part of a nationwide voluntary compliance initiative.

OWNER NOTIFICATION EFFORTS

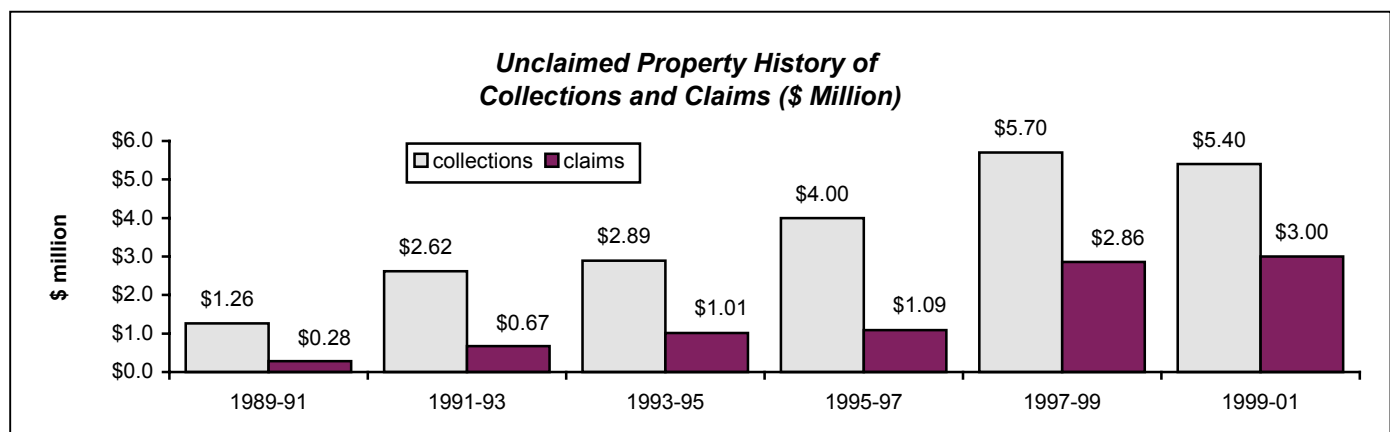
After property is remitted to the Land Department, various attempts are made to locate owners by:

- Publishing a list of the names in the official county newspaper of the owner's last known residence.
- Establishing a searchable web site where potential claimants can search for property by name, or by city of last known address.
- Distributing educational brochures.
- Appearing on television and radio shows around the state to provide information to both claimants and holders.
- Making presentations at various community and business functions.
- Operating a booth at the ND State Fair in Minot, and the Women's Showcase and Red River Valley Fair in Fargo.

LEGISLATIVE CHANGES

The 2001 legislative assembly made the following changes to the Unclaimed Property Act.

- Required that owners be paid dividends accrued on stock held in custody by the Division.
- Allowed for safe deposit contents to be sold via means other than just an auction in "a city in the state".
- Reduced the fee limit for heirsfinders from 25% to 10% of the value of the property.



The Investment Division is responsible for directing, implementing, coordinating and monitoring all aspects of the Land Department's investment program.

As of June 30, 2001, the total market value of investment assets managed by the Division was approximately \$625.59 million. The bulk of these assets (\$572.65 million) are owned by the 13 permanent education trusts under the Board of University and School Lands (Board)'s control, while the remainder are owned by the Coal Development, Land & Minerals and Capitol Building trust funds. Listed below is a breakdown of the investment assets managed by the Division, by asset type:

- **Marketable Securities:** The total value of marketable securities managed by the Board as of June 30, 2001 was \$533.72 million. \$532.06 million of those securities are held in trust by our custodian bank, The Northern Trust Company, and are managed by investment professionals that are hired by the Board to achieve specific investment goals and objectives. The other \$1.66 million in marketable securities were purchased through the Bank of North Dakota (BND) for the Land & Minerals and Capitol Building trusts.
- **Farm Loan Pool:** As of June 30, 2001, the total value of the Board's pool of farm real estate loans was \$56.78 million. Although the BND handles the day-to-day operations of the farm loan pool, the Investment Division works closely with the bank in developing and implementing policies, goals and strategies for farm loans and in monitoring and evaluating the program on an ongoing basis.
- **Loans To Political Subdivisions:** As of June 30, 2001, the Board had total outstanding loans, to various political subdivisions, of \$35.09 million. Legislatively directed loan programs from the Coal Development Trust Fund total \$28.75 million as of that date, and include \$24.90 million in school construction loans and \$3.85 million in loans to various energy impacted political entities. In addition, the common schools trust fund has two outstanding loans, totaling \$6.34 million, that have funded the building and furnishing of group homes for the developmentally disabled.

INVESTMENT GOALS AND OBJECTIVES

The type of investment assets owned by each trust fund managed by the Board is determined by the nature or purpose of the fund, and investment goals and objectives of the fund.

The 13 educational trust funds managed by the Board are permanent in nature, and were established to provide funding for education in North Dakota, both today, and for future generations. The long range goal for the permanent trusts is to have an investment program that will allow trust assets and distributions to beneficiaries to increase at a rate that meets or exceeds the historic annual rate of inflation (4%/year) over time. To that end, the Board developed a long-term investment allocation plan to include a well diversified portfolio of stocks, bonds and other assets.

The primary purpose of the Coal Development trust fund is to provide loans to political subdivisions, as directed by the legislature. The Board is responsible for administering the trust, and investing any moneys that have not been loaned. As of June 30, 2001, outstanding loans to political subdivisions totaled \$28.75 million, while the Board invested the remaining \$22.53 million of this trust's assets. Because of the limited authority the Board has over this trust, its assets are invested in a relatively short-term, high-quality bond portfolio, that can be liquidated as needed, to fund loan programs adopted by the legislature.

The expendable nature of the Land & Minerals and Capitol Building trust funds result in these trusts being invested in short-term, high-quality bonds and certificates of deposits, that have minimal chance of principal loss.

During the 2000-01 biennium, the Board continued to fine tune its investment program. The recognition of land as an asset class, to be managed as a part of our overall investment portfolio, is only one example of how the Board continues to improve its understanding of the assets under its control. Over time, we expect to continue to develop and improve an investment program that already incorporates the purpose and nature of each trust into an investment plan that meets the goals and objectives of the trust.

PERMANENT TRUST INVESTMENT ASSETS

Asset Allocation Study and Plan:

In early 1995, the Board hired Yanni•Bilkey Investment Consulting to perform a study of the Board's investment program. The two main conclusions of the study were that the permanent trusts needed to 1) significantly increase their exposure to equities (common stocks) if we wanted to grow trust assets at the rate greater than or equal to inflation, and 2) decrease the percentage of assets distributed each year from a rate of approximately 6.5% of assets to a rate closer to 5%.

Using the Yanni•Bilkey study as a base, the Land Department staff developed and implemented a long-term investment plan for the permanent trusts that applies the investment theory presented in the study to the legal and fiscal realities that limit the Board's management of these funds.

The plan adopted by the Board:

- Gradually increases the permanent trusts' exposure to equity securities to approximately 45-50% of total assets, including surface lands.
- Recognizes that surface lands are an asset class that should be managed as a part of the Board's total investment portfolio.
- Provides for modest increases in distributions to beneficiaries as we work toward our ultimate goal of increasing distributions by 4% each year.
- Decreases the permanent trust's reliance on mineral royalties and bonuses as a source of trust growth. In the future, our investment assets will provide the bulk of permanent fund growth.
- Includes various safeguards that provide assurance that trust beneficiaries will receive stable or increasing distributions for years to come.

The schedule below shows that the permanent trusts' total assets grew by \$69.38 million during the biennium, with most of the growth coming during fiscal year 2000. Total financial assets (excluding land) have now increased by over \$202.66 million (56%) since June 1995. On June 30, 2001, the permanent trusts' target allocation for equity and convertible securities was 40.8%, an increase of almost 4% from the 36.9% target allocation on June 30, 1999.

ASSET ALLOCATION SCHEDULE								
Date	Total Assets	Fixed Income	Cash Equiv.	Convertible Securities	Sm/Mid Cap Equities	Large Cap Equities	Intl. Securities	Trust Lands
6/30/99 Rebalanced	\$598,007,000	\$273,466,000 45.7%	\$4,990,000 0.8%	\$50,731,000 8.5%	\$50,731,000 8.5%	\$68,376,000 11.4%	\$50,731,000 8.5%	\$98,982,000 16.6%
6/30/00 Rebalanced	\$662,065,000	\$286,139,000 43.2%	\$5,621,000 0.8%	\$62,192,000 9.4%	\$62,192,000 9.4%	\$83,824,000 12.6%	\$62,192,000 9.4%	\$99,905,000 15.2%
6/30/01 Rebalanced	\$667,395,000	\$286,847,000 43.0%	\$5,648,000 0.8%	\$62,598,000 9.4%	\$62,598,000 9.4%	\$84,371,000 12.6%	\$62,598,000 9.4%	\$102,735,000 15.4%

Land as an Asset Class:

On October 29, 1999, the Board made a historic decision by officially designating surface lands as an asset class, to be managed within the Board's total portfolio. The decision was a direct result of a study performed by the Investment Division, which sought to quantify the true financial impact that surface lands have on the permanent trusts' overall portfolio of assets. The results of the study indicated that:

- Surface lands have many equity-like characteristics. The return earned from land includes both an income component (rents) and an ownership component (increases and decreases in value over time).
- Surface lands, over time, earn less than stocks but more than bonds.
- Surface lands have a stabilizing effect on our overall portfolio of assets because their return pattern has a negative correlation to the other assets we own.

This study, along with the Board declaration of land as an asset class, will significantly affect management of the permanent trusts for years to come. We plan to continue to study how trust lands impact the performance of our overall portfolio of assets and the role land should play in our asset allocation and distribution policies.

**SUMMARY OF PERMANENT EDUCATIONAL TRUST FIXED INCOME ASSETS MANAGED FOR YIELD
FOR PERIODS ENDED JUNE 30, 1999, 2000 & 2001**

Manager/Asset Class	6/30/01 Alloc. (\$ million)	% of Total Portfolio	FY Ended 6/30/01	FY Ended 6/30/00	FY Ended 6/30/99
Bank of North Dakota	\$ 85.89	12.9%	7.57%	7.59%	7.58%
Payden & Rygel Long Term	\$112.02	16.8%	7.30%	7.38%	7.40%
Ava. Yield on Cost – Fixed Income Securities	\$197.91	29.7%	7.42%	7.47%	7.54%
Benchmark Yield for Fixed Income Securities			7.25%	7.25%	7.25%
Farm Loan Pool	\$ 55.03	8.2%	8.03%	8.09%	8.14%
DD Loans #2 & #3	\$ 6.34	1.0%	9.00%	9.79%	10.70%
Avg. Yield on Cost – Loans	\$ 61.37	9.2%	8.14%	8.26%	8.40%
Avg. Yield on Cost - All Fixed Income Investments	\$259.28	38.9%	7.58%	7.66%	7.68%
Yield Requirement per Asset Allocation Schedule			7.50%	7.50%	7.50%

Fixed Income Investments:

When the Board adopted its asset allocation plan in 1995, it made a conscious decision that it could no longer look at fixed income assets on a total return basis, as pensions and most other institutional investors do. Rather, the Board decided that the objective of the fixed income portfolio is to generate the long-term, predictable, income and cash flows needed to meet distribution goals, while gradually increasing the permanent trust funds' exposure to equity securities.

To meet this objective, a fixed income portfolio was built that consists primarily of high quality, relatively high yielding, loans and fixed income securities, that is managed in more of a "buy and hold" manner than most institutional fixed income portfolios. The fixed income assets managed in this yield-oriented strategy include long-term government and corporate fixed income securities, as well as farm real estate loans and developmentally disabled loans (DD Loans) #2 and #3. The total amount invested in this yield-oriented fixed income portfolio was over \$259 million as of 6/30/01.

The goal of the yield-oriented fixed income portfolio is to maintain an average yield on cost of 7.50% or greater. During the biennium this goal was exceeded, as the portfolio posted an average yield on cost of 7.66% during the fiscal year ended June 30, 2000, and 7.58% during the fiscal year ended June 30, 2001.

In early 1999, the Board added a high yield bond component to the permanent trusts' total fixed income portfolio. Although these non-investment grade securities are riskier than the other fixed income investments, adding them to the asset mix helps reduce overall risk by adding diversification to the portfolio while still providing the wanted yield. Due to the nature of high yield bonds, this portfolio is actively managed on a total return basis. As of June 30, 2001, the total value of the high yield portfolio was \$28.68 million.

Although declining interest rates are starting to have an impact on the average yield of our fixed income portfolio, at the present time, we do not anticipate changing either our asset allocation or distribution plans going forward.

Equity Securities:

The purpose of the permanent trusts' equity and convertible securities portfolio is to provide the growth needed to reach the Board's ultimate goal of increasing both trust assets, and distributions, at a rate greater than or equal to inflation. In order to accomplish this goal, the permanent trusts' exposure to equities needs to be increased to approximately 55-60% of financial assets (45-50% of total assets, including land). Since June 1995, the percentage of permanent trust financial assets invested in equities has increased from 32.3% to 48.2%. The Board plans to continue to increase the permanent trusts' exposure to equities over the next 5-10 years.

The permanent trusts' equity asset mix includes allocations to large-capitalization U.S equities, small- and mid-capitalization U.S equities, international equities and convertible securities. The current weighting of each asset class in the equity portfolio is based on the Yanni•Bilkey study.

During the biennium, the target asset allocation percentage for equity securities increased from 36.9% of total assets on June 30, 1999 to 40.8% on June 30, 2001. Over the same period, the market value of our equity and convertible securities portfolio increased from \$220.60 million to \$272.17 million.

The permanent trusts' combined equity and convertible securities portfolio posted an average annual return of 5.69% during the biennium. After earning 19.67% during fiscal year 2000, the portfolio posted a negative total return of 6.65% during fiscal year 2001. A big part of the success of the combined equity portfolio is a result of a shifting a portion of our large-cap portfolio to a "value" approach in early 1999. The combined equity portfolio has earned an annualized total return of 13.38% since August 1995, well above the 10% total return we expect to earn from the combined equity portfolio over time.

The three active money managers that the Board has hired continue to perform well versus their respective benchmarks, while the two index funds managed by State Street Global Advisors continue to earn returns that replicate the respective indexes.

The schedule below summarizes the position of our combined equity and convertible securities portfolio as of June 30, 2001, and its performance since the Board implemented the asset allocation plan in August 1995.

PERMANENT EDUCATIONAL TRUST EQUITY & CONVERTIBLE NET RETURNS FOR PERIODS ENDED JUNE 30, 2001							
<u>Asset Class</u> <u>MANAGER</u> <u>Index</u>	<u>6/30/01</u> <u>Allocation</u> <u>(\$ mil.)</u>	<u>% of</u> <u>Total</u> <u>Portfolio</u>	<u>Last 1</u> <u>Year</u> <u>(%)</u>	<u>Last 2</u> <u>Years</u> <u>(%)</u>	<u>Last 5</u> <u>Years</u> <u>(%)</u>	<u>Since</u> <u>Inception</u> <u>(%)</u>	<u>Inception</u> <u>Date</u>
Large Cap U.S. Equities							
STATE STREET - S&P 500 Index Fund	\$54.12	8.1%	-14.80	-4.40	N/A	8.10	2/1/98
S&P 500			-14.83	-4.43	N/A	8.11	
MISSOURI VALLEY PARTNERS	\$29.02	4.3%	19.44	N/A	N/A	15.03	4/1/00
Russell 100 Value Index			10.33	N/A	N/A	4.11	
Small/Mid Cap U.S. Equities							
NORTHERN TRUST GLOBAL ADVISORS	\$67.15	10.1%	15.69	16.94	17.48	17.39	3/1/96
NTGA Benchmark (composite index + 2.00%)			5.98	11.81	13.15	13.72	
International Equities							
STATE STREET - MSCI EAFE Index Fund	\$56.89	8.5%	-23.75	-5.44	N/A	-1.85	3/1/99
MSCI EAFE			-23.60	-5.39	N/A	-1.91	
Convertible Securities							
TRUST COMPANY OF THE WEST	\$59.35	8.9%	-14.07	9.11	14.06	12.52	6/30/90
First Boston Convertible			-11.83	9.58	10.94	12.20	
Combined Equity and Convertibles	\$266.53	39.9%	-6.65	5.69	12.25	13.38	8/1/95
All total return figures for periods of 1 year or greater have been annualized.							

MONITORING AND EVALUATING PERFORMANCE

During the mid-90s, the Board's efforts in the investment area were directed towards adopting and implementing an asset allocation plan for the permanent trusts. Now that an investment plan is in place, the focus has switched to monitoring, evaluating, and enhancing the performance of the plan.

The Investment Division prepares quarterly performance reports for the Board that summarize the performance of the investment program and compare it to established benchmarks and goals. The reports are reviewed by an independent accounting firm to help ensure that accurate data is being presented to the Board. The Investment Division is also performing other functions that were previously handled by investment consultants, including manager searches.

By bringing more investment-related knowledge and functions in-house, we can better manage the permanent trust assets under the Board's control.

SUMMARY

The Board's investment plan for the permanent trusts continued to perform well during the biennium. Although our equity portfolio was down during fiscal year 2001, the Board's conservative approach to investing weathered the downturn without reducing planned distributions to trust beneficiaries and without altering the long-term goals and objectives for the trusts.

The recognition of surface lands as an asset class, and the study of how the risk and return characteristics of surface land compare to the other assets in our portfolio will help enhance management of the permanent trust assets under the Board's control for many years to come.

Permanent Funds

	<i>Schedule of Net Asset Balances</i>		<i>Schedule of Income Available for Distribution by Trust</i>	
	6/30/99	6/30/01	7/97 to 6/99	7/99 to 6/01
Common Schools	\$556,889,756	\$626,896,216	\$62,776,434	\$73,130,785
North Dakota State University	12,002,981	10,411,697	1,376,574	1,552,488
School for the Blind	2,358,768	2,641,028	270,583	294,946
School for the Deaf	3,440,202	3,686,252	399,015	441,071
State Hospital	3,052,213	3,162,734	347,821	400,497
Ellendale State College	2,546,393	2,250,963	280,283	298,944
Valley City State University	2,917,118	2,746,667	322,103	354,295
Mayville State University	2,060,671	3,997,165	229,855	254,206
Industrial School	4,424,736	4,150,590	524,516	587,003
State College of Science	3,262,494	4,331,458	361,142	414,538
School of Mines	3,342,741	3,589,435	380,716	430,677
Veterans Home	2,602,850	2,817,088	296,721	326,029
University of North Dakota	6,237,884	5,458,412	676,452	766,161
Total	\$605,138,807	\$677,764,580	\$68,242,215	\$79,251,639

	<i>Schedule of Distributions By Trust</i>		<i>Schedule of Permanent Fund Receipts By Trust</i>	
	7/97 to 6/99	7/99 to 6/01	7/97 to 6/99	7/99 to 6/01
Common Schools	\$46,400,000	\$47,550,000	\$15,548,136	\$48,067,480
North Dakota State University	1,125,200	1,556,595	200,358	420,732
School for the Blind	217,400	294,197	18,324	10,919
School for the Deaf	322,000	440,835	57,714	77,968
State Hospital	263,700	400,094	69,326	134,189
Ellendale State College	231,000	298,310	4,508	20,139
Valley City State University	283,000	354,146	17,225	45,821
Mayville State University	187,400	253,435	6,915	13,081
Industrial School	372,900	587,320	32,743	45,174
State College of Science	276,900	414,288	139,191	89,460
School of Mines	281,000	430,735	58,319	84,769
Veterans Home	221,900	325,803	19,667	32,307
University of North Dakota	572,000	768,020	260,975	377,361
Total	\$50,754,400	\$53,673,778	\$16,433,402	\$49,419,400

<i>Schedule of Sources of Income Available for Distribution</i>			<i>Schedule of Sources of Permanent Fund Receipts</i>		
	7/97 to 6/99	7/99 to 6/01		7/97 to 6/99	7/99 to 6/01
Investment Income	\$35,975,232	\$38,849,854	Mineral Bonus	\$1,658,735	\$967,000
Loan Income	9,845,160	10,139,272	Oil Extraction Taxes	2,543,794	4,643,585
Rents	8,296,296	8,559,508	Tobacco collections	0	23,804,911
Amortization of Gains & Losses	14,078,952	21,611,266	Royalties	11,983,415	19,783,764
Other	46,575	91,637	Other	247,458	220,140
Total	\$68,242,215	\$79,251,639	Total	\$16,433,402	\$49,419,400

Other Funds

	<i>Schedule of Net Asset Balances</i>		<i>Schedule of Distributions</i>	
	6/30/99	6/30/01	7/97 to 6/99	7/99 to 6/01
Capitol Building Fund	\$1,962,756	\$1,624,876	\$810,000	\$501,269
Coal Development Fund	51,187,980	53,614,089	5,444,003	4,029,000
Land & Minerals Fund	1,939,482	2,053,624	5,625,000	3,237,515
Total	\$55,090,218	\$57,292,589	\$11,879,003	\$7,767,784